

**MINUTES OF THE
REVENUE AND TAXATION INTERIM COMMITTEE**
Wednesday, June 15, 2005 – 2:00 p.m. – Room W135 House Building

Members Present:

Sen. Curtis S. Bramble, Senate Chair
Rep. Wayne A. Harper, House Chair
Sen. Brent H. Goodfellow
Sen. Lyle W. Hillyard
Sen. Howard A. Stephenson
Rep. Sheryl L. Allen
Rep. Ralph Becker
Rep. Tim M. Cosgrove
Rep. Glenn A. Donnelson
Rep. Craig A. Frank
Rep. Gregory H. Hughes
Rep. Fred R. Hunsaker
Rep. Bradley G. Last
Rep. Rebecca Lockhart

Rep. Roz J. McGee
Rep. Merlynn T. Newbold
Rep. Patrick L. Painter
Rep. Gordon E. Snow

Members Absent:

Sen. Mike Dmitrich
Sen. John L. Valentine
Rep. Carol Spackman Moss

Staff Present:

Mr. Bryant R. Howe, Assistant Director
Mr. Phillip V. Dean, Policy Analyst
Ms. Rebecca L. Rockwell, Associate General Counsel
Ms. Phalin L. Flowers, Legislative Secretary

Note: A list of others present and a copy of related materials can be found at www.leg.utah.gov or by contacting the committee secretary, Phalin Flowers, at 538-1032. A recording of the meeting is available from the committee secretary.

1. Committee Business

Sen. Bramble called the meeting to order at 2:19 p.m.

MOTION: Rep. Donnelson moved to approve the minutes of the May 18, 2005 meeting. The motion passed unanimously with Sen. Hillyard, Rep. Allen, and Rep. Harper absent for the vote.

2. Progress Report from the Tax Reform Task Force

Sen. Bramble reviewed the Tax Reform Task Force's initial plans for public hearings. He said that public hearings are scheduled in Logan, Salt Lake City, Provo, Vernal, Price, Cedar City, and St. George. He said that by the time the Task Force holds these hearings, it will have adopted draft proposals on which the public may comment.

MOTION: Rep. Painter moved that the Committee endorse the Task Force's plans for statewide public hearings, as explained by Sen. Bramble. The motion passed unanimously.

Staff distributed and discussed "Utah Legislature Revenue and Taxation Interim Committee: Information from Tax Reform Task Force," containing presentation handouts and outlines from organizations and individuals that presented testimony to the Task Force at its May 26, 2005 and June 8, 2005 meetings. A draft resolution "Resolution Regarding Property Tax on Personal Property" was also distributed.

Sen. Bramble reviewed the initial recommendations of the Income Tax Subcommittee. He said that the Subcommittee is developing a proposal to impose a four percent tax on a taxpayer's federal adjusted gross income. He also said that the Subcommittee voted to ask the Constitutional Revision Commission to review the constitutional earmarking of taxes on income for public and higher education.

Rep. Harper discussed the work of the Sales and Use Tax Subcommittee. He said that the Subcommittee is continuing its review of expanding the sales and use tax base and exempting from the sales and use tax certain production inputs.

Rep. Snow told the Committee that the Property Tax Subcommittee has reviewed a proposed constitutional amendment to allow the Legislature to exempt personal property from the property tax and has requested that the Utah Constitutional Revision Commission review this proposal. He said that the Subcommittee will review the state's centrally assessed property tax system at its next meeting.

Sen. Bramble said that the RDA/Other Taxes Subcommittee is examining issues including how the one percent local option sales and use tax is distributed. He said that the Subcommittee is waiting for the results of a legislative audit of redevelopment agencies. Rep. Cosgrove asked whether the Subcommittee plans to review the definition of "blight" under state law. Sen. Bramble replied that this is a subject of the audit as well as more discussion by the Subcommittee.

3. State Tax Commission Collection Practices

Ms. Rockwell, distributed 2005 General Session S.B. 170, "State Tax Commission Collection and Licensing Requirements Summary of Bonding Amendments."

Ms. Lynn Solarczyk, Utah State Tax Commission (Tax Commission), addressed the Committee regarding some of the implementation issues for S.B. 170. She explained that some taxpayers are not able to obtain a surety bond because the taxpayer has few or no assets that can be used as collateral. She explained that the Tax Commission has been meeting with industry representatives to address this and other issues related to S.B. 170. Commissioner Bruce Johnson, Tax Commission, addressed the Committee regarding employee leasing organizations and professional employer organizations.

Sen. Bramble inquired as to whether the Tax Commission is conferring with industry to implement the law in ways that do not require certain taxpayers to post a bond. Ms. Solarczyk said that the Tax Commission is investigating whether a letter of credit could constitute sufficient surety. She said that the Tax Commission is studying this issue and may have recommendations for legislation for the 2006 General Session. Commissioner Johnson noted that it is important that employers withholding state income taxes from employees' paychecks remit these amounts to the Tax Commission. He explained that an employee is still required to pay income taxes even if the employer does not remit the withholdings.

4. Utah Enterprise Zones Income Tax Credits

Mr. Ed Meyers, Department of Community and Economic Development, distributed "Utah Enterprise Zones: Report to the Legislature." He said that this is an important program that helps recruit new companies and encourages existing companies to expand in rural areas of the state. He commented that

the income tax credits available under this program help compensate for the lack of infrastructure in rural areas.

Rep. Harper asked whether the program is only available in rural areas of the state. Mr. Meyers replied that this is the case but that the Legislature could expand this program to include highly impacted urban areas. Rep. Harper requested that a report be given to the Committee later this year on the feasibility of operating this program in urban areas.

Mr. Meyers said that one challenge is to collect data to assess the program's effectiveness. He said he would welcome a change to state law to allow reporting of certain information by taxpayers that claim these credits. For example, to assess the program's effectiveness, he said it would be helpful to receive data on the number of new jobs that were created and whether these jobs include employee benefits. Rep. Harper asked the Tax Commission to confer with the Department of Community and Economic Development regarding the issue of reporting data.

Rep. Hunsaker inquired about the program's eligibility requirements. Mr. Meyers replied that eligibility requirements are established in statute. He also noted that he would welcome the Legislature to consider expanding eligibility to include more areas of the state.

Rep. Allen commented that she would like the Tax Reform Tax Force to consider the issue of income tax credits and contributions as part of its discussion of simplification. Rep. Harper commented that under a flat tax proposal, the various income tax credits available under this program would be eliminated.

Rep. Newbold asked whether repealing the enterprise zone tax credits as a result of eliminating corporate franchise and income taxes and implementing a flat individual income tax would affect business' decisions, and stated that some doubt the effectiveness of enterprise zone tax credits. He said that it may be more effective to redirect the \$1 million now spent on enterprise zone tax credits as an appropriation to the Department of Community and Economic Development to provide incentive payments for businesses.

5. Utah Low-Income Housing Income Tax Credits

Rep. Harper announced that Mr. William Erickson, Executive Director, Utah Housing Finance Agency, was appearing before another legislative committee and that this agenda item will be considered at a future meeting.

Rep. Snow commented that discussions to eliminate the state corporate franchise and income tax have already reduced corporations' interest in claiming this credit thereby reducing funding to build affordable housing.

6. Other Items / Adjourn

MOTION: Rep. Donnelson moved to adjourn the meeting. The motion passed unanimously with Sen. Stephenson absent for the vote.

Sen. Bramble adjourned the meeting at 4:15 p.m.